



Being guided by  
our purpose helps us

# build resilient communities

Annual Review and Safer Communities Report 2020  
**Insurance Australia Group Limited**

This release has been authorised by the Board of Insurance Australia Group Limited, 7 August 2020

ABN 60 090 739 923

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## Cover image

Our cover photo shows the aftermath of the bushfire that burned along the western side of the Princes Highway on the New South Wales South Coast in December 2019. Fires restricted access to the Wairo Beach Holiday Park visible in the top right of the image as roads became heavily congested and there was a lack of power and supporting services, and limited telecommunications.

# 2020 overview

## Financial performance

**\$12,135m**

**Gross written premium**  
up 1.1% from 2019



**\$279m**

**Cash earnings**  
down 70% from 2019



**4.5%**

**Cash return on equity**  
down 990 basis points from 2019



**16.0%**

**Underlying insurance margin**  
down 60 basis points from 2019



**10.1%**

**Reported insurance margin**  
down 680 basis points from 2019



**\$741m**

**Insurance profit**  
down 39.5% from 2019



For detailed information about our 2020 results, visit the Results & Reports area of our website at [www.iag.com.au](http://www.iag.com.au) and access financial statements, the investor report and management's results presentation.

## Customers

~\$**2.164**tn



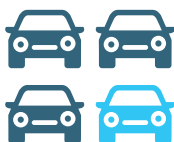
**Assets insured** through our  
Australia and New Zealand businesses

\$**9,406**m



**Claims paid**  
up from \$8,670m in 2019

**6.4**m



**Cars insured**  
≈ 1 in 4

**2.8**m



**Homes insured**  
≈ 1 in 4

**Heartbeat scores<sup>1</sup>**

**+49.1** AU **+50** NZ

up from +43 in 2019

up from +46 in 2019



**Strategic Net Promoter Score (sNPS)<sup>2</sup>**

**+23** AU **+18** NZ

up from +21 in 2019

up from +9 in 2019

<sup>1</sup> The Heartbeat score is an internal measure of customer advocacy based on experiences customers have had with us. We obtain this information via surveys of our personal and business insurance customers who have had a recent interaction with IAG, either by telephone, visiting a branch or agency, or by having lodged or settled a claim. The Heartbeat figures as at June 2020 were calculated on a 12-month rolling average.

<sup>2</sup> The Heartbeat score is different to the sNPS which is a factor in the IAG Group Balanced Scorecard. sNPS assesses the strength of the relationship customers have with IAG's insurance brands in Australia and New Zealand, based on their likelihood to recommend IAG to others. It is measured via monthly online surveys conducted among a random sample of the population, who may or may not have had a recent interaction with IAG. In New Zealand, all NPS/broker advocacy score information is reported on a 12-month rolling basis. The NZI broker score is the result of a company-led bi-monthly survey of brokers.

## Community

**5,482** hrs



**Volunteered by our people**  
up from 5,244 hours last year

\$**20.4**m



**Community investment**  
up from \$10.4m last year



## Climate action

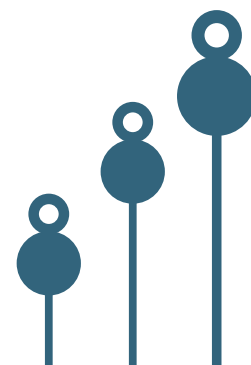
**Carbon  
neutral**



Since 2012

**20%** reduction

in scope 1 and 2 emissions year-on-year

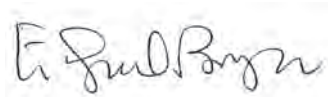


# Chairman's review

Many of you will by now be familiar with IAG's purpose – to make your world a safer place.

In my first Chairman's address to IAG's annual general meeting in 2016, I described our commitment to that purpose as the glue that holds together the enormous technical skills and the customer service focus that makes up our successful insurance business.

This year, the strength of this glue has been tested in extraordinary ways, and I am very proud of the extent to which it continues to bind us to our customers – and to each other.



**Elizabeth Bryan AM**  
Chairman



While the COVID-19 pandemic still dominates our lives as I write this report, we must not lose sight of the fact that this year also delivered the earliest-ever start to Australia's bushfire season. The fires started in September, peaked through November and December and then ran into January and February. Although New South Wales, Victoria and South Australia were the worst affected states we also suffered bushfire losses in Queensland, Tasmania and Western Australia.

Our customers lodged over 20,000 bushfire-related claims, including for 794 destroyed homes, at a total cost of more than \$920 million; the net claim cost to us was around \$170 million after allowing for the quota share arrangements and the benefits of our reinsurance program.

The bushfire crisis was closely followed by a major hailstorm event in January 2020 which affected parts of Melbourne, Canberra and Sydney and produced over 40,000 claims and a net claim cost of \$169 million.

These extreme weather events affected thousands of our customers and their communities and caused devastating and heartbreaking loss of life and property.

## Being guided by our purpose

Our response was guided by our purpose. Following the bushfires, we quickly put in place people and processes to help our customers lodge claims and begin to recover and rebuild as quickly as possible. Our claims assessors worked in affected communities and we provided general support through our NRMA Insurance agencies and our partners, including the Australian Red Cross and the NSW State Emergency Services.

Beyond providing that immediate and practical support for customers in need, we are also looking for ways to help communities recover over the longer term. I am particularly pleased that experts from our Natural Perils Team are contributing our knowledge and experience to the Federal Government's Royal Commission into National Natural Disaster Arrangements and the Senate Inquiry into Bushfires.

As the drastic weather events abated, we faced a new challenge: the need to support customers, businesses and communities affected by the spread of the coronavirus (COVID-19) pandemic.

Again, our purpose shaped every aspect of our response. With COVID-19, we had the critical first step of ensuring IAG's employees were equipped and supported to work safely from home, so they could in turn continue to support our customers.

As the National Cabinet rolled out measures to protect our society, we implemented steps of our own, directing IAG's people to work from home, from where they are providing a near-normal level of service to our customers.

## A rapid response to logistical and technical challenges

Management is to be congratulated for its rapid response to the logistical and technical challenges of shifting the workplace of many thousands of people, and achieving this with a single-minded focus on the safety of all.

Purpose-led principles guided the business to develop a range of measures designed to support customers, with the aim of ensuring as many as possible were able to maintain the insurance cover they need to protect their possessions or businesses.

Our customer-focused response to challenges that ranged from the usual – extreme weather – to the extremely unusual – a global pandemic – perfectly demonstrates the important role insurance has to play in society, and our capacity to help individuals, businesses and communities recover from disaster.

### Results reflect the year's challenges

The challenges faced by the company this year are reflected in the results we reported for the 2020 financial year.

IAG achieved gross written premium of \$12,135 million, net profit after tax of \$435 million, cash earnings of \$279 million and cash return on equity of 4.5%. There are a number of elements that contribute to each of these outcomes, and our Managing Director and Chief Executive Officer, Peter Harmer, describes these in detail as part of his review, which starts on page 4.

### Conserving capital

Responding to the extraordinary challenges we have faced this year has not come without a cost to the company, and it has led us to carefully consider steps to protect our long-term prospects.

Our company continues to hold above target levels of capital which has allowed us flexibility.

We have therefore made the difficult decision that we will not declare a final dividend for the 2020 financial year. While we recognise many shareholders will be disappointed with this decision, we believe it is important for our company to maintain its capital position in the current uncertain environment.

### Shaping our business into the future

Your Board is strongly focused on several key issues that will help ensure the ongoing success of our business well into the future.

### Strategy

The first of these is our business strategy. As we pursue our customer-focused growth strategy aligned to our core insurance operations, the Board continues to support and challenge management as it works to identify challenges and opportunities in the post-COVID-19 world that will enable us to become the purpose-led, customer-focused and disciplined organisation we want to be.

### Risk maturity

The Board also endorses management's intense focus on risk, with the goal of achieving a fully-effective level of risk maturity at every level of the organisation. A sound understanding of risk will ensure the company is well equipped to benefit from new opportunities it identifies.

### A change in CEO

In April, our Managing Director and Chief Executive Officer Peter Harmer advised the Board of his decision to retire from IAG by the end of the 2020 calendar year. We are fortunate to have benefited from the skills and experience that Peter brought to his role as CEO; he has been pivotal in creating the more innovative and customer-focused business that we are today.

Peter's steps to simplify the company while driving a culture that values digital innovation and puts the customer first leave IAG in a strong position for future success.

The Board now has the critical task of choosing his successor to lead the company in what will be very challenging months and years ahead. We are well advanced in our comprehensive search – inside and outside the company – to identify the best candidate to fill this role.

### Board renewal

As a Board, we are also committed to ensuring we have the skills we need to continue to guide and advise management.

Following the retirement of our long-term director Hugh Fletcher at last year's annual general meeting, we were pleased to appoint Simon Allen as an independent non-executive director to the Board in November 2019. Simon is also Chairman of our wholly-owned subsidiary, IAG New Zealand Limited, where he has been a Non-executive Director since September 2015. He provides valuable insights and knowledge into financial and governance requirements in New Zealand, which represents more than 20% of IAG's business.

I look forward to introducing Simon to you in October, when he stands for election at this year's annual general meeting.

I close by thanking Peter, his Group Leadership Team and everyone who works at IAG for their contributions to our achievements in what has been an extraordinarily challenging year. I am also grateful for the support and guidance provided by my fellow Directors as we worked closely together – and with management – to support our people, assist our customers and protect the long-term prospects of our company.

# CEO's review

This has turned into a very difficult year for Australia and the world, and it has certainly been a year of extremes for IAG.

We experienced an immensely challenging second half to the 2020 financial year, characterised by extreme weather events, the disruption caused by the COVID-19 pandemic to our people, customers and suppliers, and marked volatility in investment markets.



**Peter Harmer**

Managing Director and Chief Executive Officer

I am proud of the way our people have risen to the challenges we experienced. We maintained a high level of commitment to our customers through the series of bushfires and hailstorms around the middle of the financial year. Then we responded to COVID-19 by swiftly implementing customer support measures for those suffering hardship even as we rapidly moved our people to home working arrangements.

Details about the steps we took to help our customers, our people and the broader community respond to the extreme weather events and COVID-19 are set out in our Focus reports on pages 8 – 11.

## Our results reflect the challenges we faced

I will focus here on our results. Our gross written premium grew by 1.1% to \$12,135 million this year, and included slightly higher premium in Australia, and 3.5% growth in New Zealand, led by commercial line volumes and commercial property and liability rates.

Our underlying insurance margin<sup>1</sup> was 16.0%, compared to 16.6% in the 2019 financial year and the final outcome reflected contrasting results over two half year periods. In the first half of the year, our underlying margin improved as a result of rate-driven growth in net earned premium and further net benefits from our group-wide optimisation program, partially offset by higher regulatory and compliance costs and lower interest rates affecting investment income.

The underlying margin softened in the second half, affected by a deterioration in the performance of Australian commercial long tail classes, higher reinsurance costs and a further headwind on investment returns from lower interest rates.

Our reported margin of 10.1% was considerably lower than the 16.9% we reported in 2019. In addition to the underlying profitability movements listed above, the reported margin was affected by:

- a net natural perils claim cost that was \$263 million over our original allowance, following the high number of natural disasters, particularly in Australia;
- an adverse movement in net prior period reserving, where claim reserve development and large loss experience in Australian long tail classes saw a net strengthening of \$48 million this year, compared to \$126 million of net releases in 2019; and
- an unfavourable movement in credit spread impact of \$40 million, following an adverse effect of over \$50 million from the widening of spreads in volatile investment market conditions in the second half.

Our net profit after tax of \$435 million was nearly 60% lower than 2019 from the combination of:

- a close to 40% reduction in pre-tax insurance profit to \$741 million, primarily owing to a negative combined impact of nearly \$500 million from prior period reserving, natural peril costs and credit spread impacts;
- a negative approximately \$400 million pre-tax movement in investment income on shareholders' funds, flowing from the volatile investment market conditions experienced in the second half of the financial year;

<sup>1</sup> IAG defines its FY20 underlying insurance margin as the reported insurance margin adjusted for:

- Net natural peril claim costs less related allowance for the period;
- Reserve releases of 1% of NEP; and
- Credit spread movements.



- a \$326 million profit after tax on the sale of our interest in the SBI General Insurance business in India, compared to the greater than \$200 million profit on the sale of the Thailand operations that we recognised in 2019; and
- a post-tax provision of \$141 million for customer refunds relating to multi-year pricing issues (discussed in more detail below).

Notwithstanding the challenges presented by bushfires, hailstorms and COVID-19, we continued our focus on customer-led growth.

### Organisational changes support customer focus

Over the past four years, our strategy has been to simplify and optimise our core insurance business while creating growth options for the future. We have done this with a focus on three strategic priorities – customer, simplification and agility – and we have made tremendous progress.

We built new capabilities and improved the experiences we provide to our customers, expanded our customer offerings and invested in new businesses.

In January we changed our operating model to achieve greater alignment between strategy and innovation as we consider the new and different services we can provide to customers. We created a Strategy & Innovation division to bring together much of our former Customer Labs and Group Strategy & Corporate Development divisions.

We also expanded our Technology & Digital division to bring together the digital teams from Australia and New Zealand, including those previously part of Customer Labs, and the existing Group Technology team.

### Portfolio focus

In March, we completed the sale of our 26% interest in the SBI General Insurance business in India, consistent with our clear plans to focus on our business in Australia and New Zealand.

We also made progress in our moves into business opportunities that support our core general insurance business.

In December 2019, we launched a pilot of NRMA Emergency Home Assist into test markets in Western Sydney. The pilot combines the capabilities, assets, products, services and customer reach of IAG and our partner RACV. We are testing our ability to deliver a subscription-based property repair offer in New South Wales under the NRMA Insurance brand.

We are seeing continued growth in Repairhub, the majority-owned motor repair joint venture we established with RACV towards the end of the 2019 financial year. Repairhub improves the consistency and quality of repairs, and the customer experience, by getting cars back on the road quickly.

As part of our enhanced motor repair model, we completed the acquisition of the MotorServe business at the beginning of February 2020. MotorServe provides a one-stop-shop for customers. It reduces the time people spend getting cars serviced or repaired by removing the need for multiple trips to have vehicles assessed, quoted and then repaired. Customers also have the option of a hire car or taxi voucher onsite to keep them mobile. We believe there is scope for increased customer use of these preferred supplier networks.

### We are improving our risk management

Our acquisition and development of new businesses is supported by our increased focus on risk.

This year, we continued to make progress on a two-year transformation program to improve our risk management processes, resource capabilities and capacity. We believe this will embed our desired risk culture and customer focus, and ensure we enhance risk systems and processes.

### We launched our Financial Inclusion Action Plan

Given the emphasis on insurance affordability revealed in our 2020 materiality assessment process (explained more fully on pages 18 – 19) I am extremely proud that we released our first Financial Inclusion Action Plan in March 2020. The plan is part of our commitment to improve financial inclusion and the economic security of Australians. The Financial Action Inclusion Plan program is led by Good Shepherd Australia New Zealand. Being part of this program clearly aligns to our purpose because we know that insurance plays a critical role in providing financial security and protection.

Our Action Plan includes a number of steps to make our products and services more accessible, including:

- providing additional support to customers who may be experiencing vulnerability, such as family and domestic violence, financial hardship or mental or physical disability;
- training employees in how to identify and help customers experiencing vulnerability;
- employment opportunities for groups that may typically experience financial exclusion, as well as greater support for employees who may be experiencing vulnerability; and
- economic opportunities for the community – for example working with a broader range of suppliers such as social enterprises, female-owned and Indigenous-owned small businesses, to support the growth of these businesses and the communities that they support.

### We shared our climate action and expertise

This year's extreme weather events triggered broader debate and even greater community concern over climate change and its impact. We have made important contributions to climate change discussions and have supported action for more than 15 years, and this year was no exception.

In December, we worked with the US National Center for Atmospheric Research to release a report calling for a national coordinated approach to combat the devastating impact of climate change. The report, *Severe Weather in a Changing Climate*, included the latest data on the state of the climate and predictions on future extreme weather events based on a range of warming global temperatures (up to 3°C from pre-industrial times).

It demonstrates that rising temperatures will lead to dramatic changes in the frequency and intensity of extreme weather in Australia.

We also made a submission to the Australian Government's Royal Commission into National Natural Disaster Arrangements. Our submission was supplemented by an expert paper *Strengthening Resilience: Managing Natural Disasters* that we commissioned from the Menzies Research Centre. The paper synthesises the existing information on how Australia can prevent and respond to bushfires and other natural perils.

Experts from our Natural Perils team were invited to appear before the Royal Commission to answer questions about both reports. We were also asked to make our experts available to the Senate Committee on Finance and Public Administration's Inquiry – Lessons to be learned in relation to the Australian Bushfire Season 2019-2020. Again, our people did an excellent job representing IAG as industry leaders in claims response, claims management and experts in assessing climate change and natural perils. On behalf of everyone at IAG, I am very proud that our responses and reports will inform the recommendations from this Committee to improve Australia's preparedness and response in future bushfire seasons.

I also commend the Australian Government for its decision, announced in July 2020, to provide \$88 million to extend and scale-up funding for critical research into bushfires and natural hazards. The funding will support the transition of the current Bushfire and Natural Hazards Cooperative Research Centre to a new, world-class research centre for natural hazard resilience and disaster risk reduction.

### **Customer refunds program**

I am disappointed to have to report that this year we had to make a post-tax provision of \$141 million for customer refunds. This relates to a number of multi-year pricing issues which we identified, where some customers did not always receive the full discounts they were entitled to.

The issues were picked up as part of a broader review of our pricing systems and processes which we initiated, and which is ongoing. We have addressed the underlying cause of the identified issues and have recently started to refund affected customers.

### **Strategy**

Over the past four years, our strategy has been to simplify and optimise our core insurance business while creating growth opportunities. We will continue to shift our focus towards customer-led growth – leveraging our data, customer reach and brands to enhance our core insurance business.

The COVID-19 pandemic has accelerated customers' adoption of digital channels and we are assessing the opportunities this presents to build on our existing strategy.

We face the future with the confidence that we have a resilient business and we are well equipped to rise to the challenges presented by the current environment, and the opportunities we see in a post-COVID-19 world.

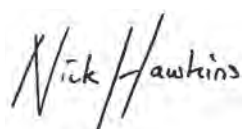
### **Management changes**

In April, I informed the Board of my intention to retire from my role as Managing Director and Chief Executive Officer before the end of calendar year 2020. I therefore take this opportunity to thank my Group Leadership Team and all those in IAG who I have had the pleasure of working with over the last five years. It's clear that two of our biggest assets are the resilience of our balance sheet, and the adaptability and commitment of our people. With these, IAG can surely look to the future with confidence.



# Deputy CEO's review

Our ability to deliver on our purpose – to make your world a safer place – depends on us maintaining our overall financial strength. This year, we have taken several steps to improve and protect our position.



**Nick Hawkins**  
Deputy Chief Executive Officer

## We are simplifying our portfolio

We continue to focus on our core insurance business in Australia and New Zealand. Our ongoing work to simplify our business portfolio received a boost in March when we completed the sale of our 26% interest in SBI General Insurance Company in India. This delivered a total profit after tax of \$326 million and increased our regulatory capital position by nearly \$450 million.

We continue to explore options for our remaining Asian general insurance interests, in Malaysia, Vietnam and China.

## Dividend decision is in line with our distribution policy

We have a dividend policy of returning to shareholders 60-80% of current year cash earnings. This year, our cash earnings have been depleted by the costs of extreme weather events and by the investment market volatility associated with the COVID-19 pandemic.

Our 2020 financial year cash earnings were \$279 million. This means that the top end of our 60-80% targeted payout range was delivered by the interim dividend of 10 cents per share which was paid in March. We believe it is important that we adhere to our long-established dividend payout policy; consequently, we have determined not to pay a final dividend for 2020.

We also acknowledge recent regulatory guidance urging companies to exercise caution around capital distributions in the face of ongoing uncertainty and heightened economic risk.



Additionally, we anticipate that we will have a limited franking capacity over the short term, reflecting the temporary absence of Australian taxable earnings.

## Investments

As at 30 June 2020, IAG's investments totalled over \$10 billion. Of these investments, 57% are held in our technical reserves, supporting our ability to meet our future policyholder obligations.

For the year ended 30 June 2020, our investment income on shareholders' funds amounted to a loss of \$181 million pre-tax, reflecting the severe corrections that occurred in the second half of the financial year in equity and alternative investment markets.

Within our shareholders' funds, we have 25% allocated to growth assets. This is below our allocation in prior periods, where our growth asset weighting has been in the range of 40-50%. Our current position recognises ongoing market uncertainty and volatility.

## We have strengthened our reinsurance position

Our conservative approach is further reflected in some enhancements we have made to our reinsurance cover.

We buy most of our catastrophe cover on a calendar year basis, and we have found extreme summer weather events such as bushfires, storms and hailstorms can add uncertainty to the reinsurance cover we seek and the cost of that cover. This has particularly been the case for our lower level or earnings protection covers, such as the aggregate cover.

To reduce the intersection of the renewal process with peak period catastrophe activity, we have moved some of our aggregate protection to a financial year period. We purchased an aggregate catastrophe reinsurance cover for the 12 months to 30 June 2021. This provides \$350 million of gross protection after qualifying events exceed \$400 million (\$236 million after events exceed \$270 million, post-quota share).

We also purchased another stop-loss cover which helps us manage earnings volatility when natural disaster costs are higher than we have planned for. This runs in line with the 2021 financial year and provides protection of \$100 million if our payout for weather events exceeds \$1.1 billion (\$67 million for events in excess of \$742 million, post-quota share).

We enter the 2021 financial year with strong reinsurance cover in place, including access to significant protection under our calendar 2020 aggregate cover.

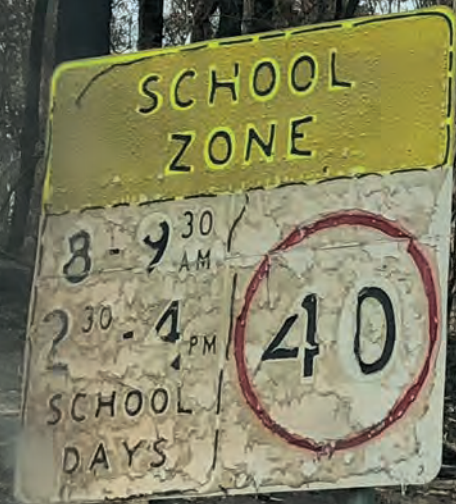
## Our capital position has proven resilient

Our Common Equity Tier 1 (CET1) ratio was 1.23 at 30 June 2020. While this was comfortably above our targeted CET1 range of 0.9-1.1, we believe the current economic circumstances and uncertainty justify a more conservative approach to capital than would otherwise be required.

Focus on:

# extreme weather response

In response to the unprecedented bushfires, our focus was on helping customers and communities so they could rebuild their lives, homes and businesses. We provided practical, on-the-ground support for our customers, our people and for those helping affected communities.





Responding to extreme weather (L to R): our Major Event Rapid Response Vehicle; the NRMA Insurance helicopter in action; and hail-damaged cars awaiting repair

## Australia's bushfires

The scale and intensity of Australia's 2019-2020 bushfire season had a devastating impact on people and communities across the country. Our response was guided by our purpose.



### Our customers

We had dedicated assessing and building teams ready to start assessments and make safe repairs as soon as it was safe to enter the affected areas.

We placed claims teams at recovery centres in Queensland, New South Wales, Victoria and South Australia to help customers lodge claims, and to provide emergency accommodation and financial assistance.

We deployed our Major Event Rapid Response Vehicles on the New South Wales South Coast so customers could lodge their claims and receive emergency support at locations convenient to them.

We extended our call centre capacity to help affected customers lodge their claims as soon as possible and put our dedicated Major Events Claims team on standby ready to proactively reach out to our customers where possible to offer immediate help and support.

We deployed our Property Assessors with the support of the Royal Australian Air Force to assist with the assessment of property damage for the residents of Mallacoota. We also deployed our claims teams to the Melbourne Evacuation Centre to support the triage of evacuees from Mallacoota with prearranged accommodation, hire vehicles and immediate financial assistance.

We also made available our disaster response customer support program, so customers could receive free and confidential counselling from a team of psychologists experienced in providing post-incident support.



### Our people

We supported employees who donated to our partners including the Australian Red Cross, GIVIT and registered charities providing disaster relief, by matching their donations. In total, employees donated over \$100,000, which IAG matched to a total of \$200,000.

We also introduced additional paid leave and extra counselling support for employees who are emergency service volunteers and those supporting the disaster relief and recovery.



### The community

We drew on our existing partnerships with the Australian Red Cross, NSW Rural Fire Service, NSW State Emergency Service and GIVIT to provide community support.

NRMA Insurance has been working with the NSW Rural Fire Service for several years to deploy the NRMA helicopter to help fight bushfires. During the bushfires the helicopter was used to spray fire retardant on homes and infrastructure in the line of fire, and for waterbombing.

This year was the first time the NSW Rural Fire Service deployed our helicopter to trial the use of a biodegradable, non-toxic fire retardant to help protect homes and properties on the New South Wales South Coast. These actions directly resulted in homes being saved from the bushfires.

We committed to use qualified tradespeople from the local areas affected to support with the recovery. This means IAG's partner builders are sourcing and using local trades and suppliers wherever possible, to get people back into their homes.

## Other events

### Eastern Australian severe hailstorm

On Sunday 19 January the northern and eastern parts of Melbourne were struck by large hail. On Monday 20 January these severe storms passed over Canberra, resulting in cricket-ball-sized

hail damaging many homes and vehicles before they moved across to greater Sydney and affected the Campbelltown area. Specialist Hail Repair sites were quickly established across Melbourne, Sydney and Canberra to help support the fast triage of hail-damaged vehicles, supported by our Assessing and Claims teams.

### East Coast Low

Heavy rainfall and flash flooding affected many regions across New South Wales on 10 February. We responded swiftly, bringing in extra resources to support the influx of claims and working closely with our partner builders to attend to immediate repairs.

## New Zealand's hailstorm

On 20 November 2019, the South Island city of Timaru was hit by the biggest hailstorm to ever hit New Zealand; golf-ball-sized hailstones caused significant damage to vehicles and property.

With an estimated total cost of over NZ\$130 million, this is the second-most costly weather-related insurance event in New Zealand this century.

For the first time in a major event in New Zealand, Paintless Dent Repair was used to repair hail damage to customers' vehicles – the technique reduces the cost and time required to repair non-structural damage. Specialist hail repairers were recruited from overseas to assist in the recovery effort.



### Looking after our customers

To help our customers, we allowed delayed settlement on vehicles that we determined were total loss vehicles, but which were still perfectly drivable. Because it was over Christmas and New Year, we gave our customers four weeks, sometimes longer, to find a replacement car before we took the hail-damaged one. This move also had positive impacts in our supply chain: all local car dealerships had suffered from the hailstorm, leading to a shortage of replacement vehicles.



Focus on:

# COVID-19 response

Being guided by our purpose, our COVID-19 response team established and followed clear priorities: help our customers who have been affected; do what we can to protect our people; and play our part in reducing the risk of spreading coronavirus.



In New Zealand, we created a tech drive through to provide our customer facing teams with extra tech to help them work from home. We packed, prepared and deployed hundreds of work-from-home bundles. Each employee drove in at a scheduled time, opened their car boot and had the kit placed in their car, ensuring social distancing rules were followed at all times.



## Our customers

Starting in March, we introduced a range of support measures for customers affected by coronavirus. Some of the key measures are set out below; more detail is available on our corporate websites in Australia and New Zealand.

Australian travellers were offered travel insurance refunds for any unused portion of premiums, including full refunds where they had not yet travelled and had not claimed under their policy, with no administration or cancellation fees.

We waived administration or cancellation fees for customers in financial hardship who cancelled their insurance policies.

Australian customers were given the option to change premium payments from annual to pay-by-the-month instalments for no additional cost; defer premium payments when faced with hardship; and we provided flexible excess options when they made a claim.

We deferred premium payments for up to six months for small businesses experiencing financial hardship. We also offered refunds on the unused proportion of premiums for small businesses who cancelled their insurance, with no administration or cancellation fees.

Small businesses which had to close their premises due to the impact of COVID-19 could maintain full insurance cover on the premises with no changes to premiums.

We also reduced timeframes for payments to our suppliers from 30 to no more than 15 business days.

In New Zealand, we established a specialist Customer Care Team in late March to further support our Consumer brands' customers in financial hardship as a result of COVID-19 by offering a range of solutions to support their individual needs.

In Australia, we released an additional Help Program in April to help support NRMA Insurance, SGIO and SGIC home and motor insurance customers who

were struggling financially as a result of the pandemic. By the end of July, we had made changes to more than 80,000 policies to help our customers.

We also introduced a number of initiatives to support our Australian broker partners during the pandemic, including free counselling services via Assure; access to Lifeline Accidental Counsellor training programs; professional development; digital marketing campaign support with the OneAffiniti agency; and a CGU speaker webinar series.



## Our people

To protect our people, we initially introduced screening procedures for customers at branches, and stopped external guests entering our offices. In Australia, we closed our kiosks due to their location in high-traffic shopping centres and in New Zealand, we shut all our AMI and State retail stores.

We closed our offices and directed our people to work from home wherever possible; for those unable to work from home, we put in place plans to help keep them safe. By late March, over 98% of our people were working from home.

We created a safety and wellbeing hub on our intranet with resources to support effective virtual team connection, and provide health, ergonomic and wellbeing fact sheets.

We extended this year's flu vaccination program to employees' families and provided a one-off allowance to assist with the expense of setting up a safe and effective workspace at home and a monthly allowance towards utility usage.

We established an 'At Risk' framework and process to provide the necessary support for people susceptible to infection or injury due to mental ill-health, family and domestic violence, suppressed immunity, or 70+ years of age.

We regularly reminded our people of the free and confidential counselling and advice available to them through our employee assistance programs.

We are taking a risk-based approach in planning and preparing to return people back to IAG sites. This includes meeting 'phase criteria' to ensure we adhere to changing government requirements (National, State and Territory), sustained low levels of community transmission, business unit desire to return our people to worksites reflecting how we can best service our customers and keep them and our people safe, the identification and implementation of key controls prior to site occupancy, a change and communication plan for engaging employees, and a governance process for recommending site return/opening.



## The community

**Supporting safer homes:** In Australia, we announced a community investment of \$4 million to address family and domestic violence and mental health through The Full Stop Foundation and Lifeline. Our involvement is explained in detail on pages 24 – 25.

### Australian Red Cross COVID

**CONNECT:** We supported our partners at the Australian Red Cross with its COVID CONNECT program. This service makes free social phone calls to provide support and community connection to adults feeling socially isolated as a result of COVID-19. Twenty-five of our people volunteered their time to make over 300 calls to connect with vulnerable Australians.

### New Zealand Red Cross Parcels:

In New Zealand, IAG volunteers joined the Red Cross to pack parcels containing a range of essential items. Around 3,700 parcels were delivered to 33 communities throughout New Zealand in June. Recipients included organisations supported through New Zealand Red Cross services, such as Meals on Wheels and migration refugee programs which assist former refugees.

# Operating performance

## Australia

We have market-leading shares in personal and commercial insurance lines in Australia, with products sold under brands including NRMA Insurance, CGU, WFI, SGIO and SGIC.

This financial year, Australia gross written premium increased by 0.4% to \$9,367 million. The result includes the impact of COVID-19, which is estimated to have reduced gross written premium in the second half of the year by approximately \$60 million, primarily through reduced new business volumes. Other factors in the Australian premium outcome include:

- largely rate-driven growth of 2% in short tail motor premium, including a reduction in volumes;
- home growth of over 5%, primarily rate-driven, with some volume growth in Victoria;
- a 7.5% contraction in long tail compulsory third party, predominantly from cumulative rate reductions that have followed changes to the schemes; and
- relatively flat like-for-like commercial products premium after allowing for business exits, with average rate increases of around 5.5%, countered by lower volumes.

Australia's insurance profit was \$420 million, down from \$842 million the previous year. The reported insurance margin correspondingly fell from 14.9% to 7.3%, following extreme bushfire and weather events and prior period reserving movements. The underlying margin of 14.9% was 60 basis points lower than in 2019.

The Australian division operates as one unit across two broad product groupings:

### Personal

Personal lines premium for this financial year increased 1.8% to \$6,577 million. This result included a modestly negative COVID-19 impact of around \$50 million, primarily from a temporary fall in new business levels from March to May. Renewal levels for both motor and home products remained high and stable.

The main brands' online sales continued to grow over the course of the year. For the full year, NRMA Insurance conducted approximately 34% of new business sales and renewals online.

Customer-initiated digital self-service interactions for the combined NRMA Insurance, SGIO and SGIC brands increased by over 14%. This reflects a continued focus on enhancing the digital experience, as well as the impact of COVID-19 on customer behaviour.



### Commercial

Commercial premium decreased by 2.9% to \$2,790 million, compared to the prior year, reflecting lower premium from exited underwriting agency and fleet leasing activities; further targeted rate increases across all business classes; reduced volumes in packaged portfolios; higher retention in other key portfolios; and lower new business volumes.

### COVID-19 response

In April, we introduced a Customer Help Program to assist personal and commercial customers suffering hardship as a result of COVID-19. So far, around 80,000 policies have been changed to help customers. Details of these measures are set out in our Focus: COVID-19 report on pages 10 – 11.

### Other customer initiatives

The Australia business continued to enhance its products, strengthen its partnerships and improve the quality of its customer service, including by:

- further enhancing the digital experience of small-to-medium enterprise customers, including launching CGU's Robo Advice tool, which uses third party data to help calculate appropriate cover;
- launching CGU's new brand position of Insuring Ambition through a small business rescue campaign to promote and support entrepreneurial spirit;
- having the National Roads and Motorists' Association (NRMA) become an Authorised Representative so it could market and distribute NRMA Insurance products to its members and customers; and
- a pilot launch of NRMA Emergency Home Assistance into New South Wales in December 2019, combining the capabilities, assets, products, services and customer reach of IAG and RACV. This is a 24/7 subscription-based property repair service that can assist customers with plumbing and electrical emergencies, providing a rapid response from trusted and accredited tradespeople.

#### Gross written premium (\$m)

2020	9,367
2019	9,331

#### Insurance profit (\$m)

2020	420
2019	842

Detailed information about our Australia results is contained in the FY20 Investor Report which is available in the Results & Reports area of our website ([www.iag.com.au](http://www.iag.com.au)).

This year, NRMA Insurance partnered with two important organisations – Port Macquarie Koala Hospital and Conservation Volunteers Australia – to help protect koala homes. To help koalas after the bushfire crisis, we made a donation to Port Macquarie Koala Hospital. We're also planting trees to help create and preserve koala homes in partnership with Conservation Volunteers Australia and we have planted more than 60,000 trees.

## New Zealand

IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley brands.

New Zealand recorded gross written premium growth of 3.5%, to \$2,754 million, after a modestly favourable foreign exchange translation effect. In local currency, gross written premium grew by 2.4% to NZ\$2,904 million. The result covered:

- strong premium growth from Business, driven by volume increases across all key commercial product portfolios and higher rates in commercial property and liability; and
- Consumer premium holding to prior year levels, with growth in the commercial motor and AMI private motor portfolios achieved through increased rates and volume.

COVID-19 is estimated to have adversely affected gross written premium in the second half of the financial year by approximately \$20 million, primarily from lower new business volumes.

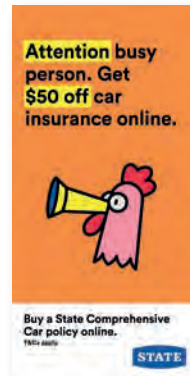
The New Zealand business produced an insurance profit of \$330 million, compared to \$390 million in 2019, translating to a lower reported insurance margin of 20.2%. The lower number reflects the combination of:

- increased net earned premium, driven by solid premium growth in the Business division;
- significantly higher natural disaster claim costs, centred on the November 2019 Canterbury hailstorm;
- higher large claims experience;
- lower investment income on technical reserves, reflecting reduced interest rates; and
- a modest net benefit from COVID-19 effects, with lower motor frequency benefits countered by increased operating costs, including those related to the planned closure of the AMI branch network.

The business continued to generate a strong underlying performance, with a 2020 financial year underlying margin of 18.6%, slightly lower than 2019.

### Business

Business represented 44% of New Zealand's gross written premium in the 2020 financial year, and experienced premium growth of 5.4% in local currency. This was led by the commercial property portfolio, which achieved strong premium growth from a combination of increased volume and higher rates. The commercial motor portfolio also delivered strong volume growth, while rates were relatively flat.



### Consumer

Consumer represented 56% of New Zealand's gross written premium in 2020. Local currency premium was similar to 2019 and included modest underlying growth after normalising for Earthquake Commission changes. Growth was led by increases in rate and volume in the AMI brand private motor portfolio.

As with many customer facing organisations, the Consumer branch network was required to close during the lockdown period. This saw a significant increase in the number of customers contacting AMI and State via

their respective websites, accelerating a long-established trend. Around 40% of all direct new business sales for personal lines are now through digital channels.

In June, we decided to implement a staged closure of the 53-strong AMI branch network and the sole remaining State-branded store. The decision was hastened by COVID-19's acceleration of customer engagement trends increasingly towards online or digital formats.

Digital sales for State and AMI have more than doubled in the last 12 months. The majority of employees affected are being redeployed into IAG's digital teams or contact centres.

### COVID-19 support measures

IAG quickly responded to the move to Level 3 lockdown restrictions on 23 March 2020 and announced a series of measures to support business and personal customers. By mid-July, over 3,000 customers had contacted the Customer Care Team and have been provided with a range of solutions to support their individual needs. Details of these measures are set out in our Focus: COVID-19 report on pages 10 – 11. With its particular focus on supporting hardship and vulnerable customers, this team has been so well received by our customers that we have decided to make it an ongoing and permanent part of our New Zealand business.

#### Gross written premium (\$m)

2020	2,754
2019	2,660

#### Insurance profit (\$m)

2020	330
2019	390

Detailed information about our New Zealand results is contained in the FY20 Investor Report which is available in the Results & Reports area of our website ([www.iag.com.au](http://www.iag.com.au)).

# Our people: living our purpose

This year has been characterised by many opportunities to live our purpose, combined with a continued focus on safety and wellbeing, and flexibility.

A prolonged period of extreme weather events in Australia and New Zealand in the first half of the year provided our people with ample opportunities to put into practise our commitment to making the world a safer place, and to deepen our connection with our customers, and with each other.

## Measuring our organisational culture

Our purpose also lies at the heart of our organisational culture, which describes how we come together to powerfully and consistently deliver our purpose and strategy. Our culture describes how we interact with our people, customers and communities in a way that sets us apart.

Each month, we report on a range of people-related outcomes to help us understand how we are tracking and what improvements we need to make. This information is supplemented by quarterly assessments of the cultural health of our organisation. We believe this knowledge helps us maximise opportunities and mitigate risk.

We have two key measures of culture. The first is our employee net promoter score, which reflects how likely people are to recommend IAG as a place to work. We calculate this measure by subtracting the percentage of 'detractors' from the percentage of 'advocates.' Our most recent survey, in June 2020, was completed by 75% of our people.

It showed our rolling 12-month average employee net promoter score improved to +50, up from the six-month rolling average of +28 for the period ended 30 June 2019<sup>1</sup>. Many employees noted that our response to the pandemic, particularly the clear link to our purpose and increased flexibility, contributed to their likelihood to recommend IAG as a place to work.

The second culture measure covers a range of agility indicators. These also improved across the board this year, indicating that our people felt a higher degree of connectedness, experienced more effective leadership and found their decision-making abilities were enhanced.

More information about our agility indicators and the results we achieved is set out in the remuneration report on pages 24 – 46 of the 2020 annual report.

Over the past 12 months, we added questions about Risk outcomes and Workplace safety and wellbeing to our quarterly surveys.

## Risk maturity

The quarterly Risk culture questions, and an annual Risk culture survey, are intended to help us understand risk culture. We recognise that a strong risk culture contributes to an effective organisational culture and ultimately, better outcomes for our customers. Driving Risk Culture is our strong focus on improving our risk management maturity. We have developed an enterprise-wide program called Project rQ which is focused on uplifting our individual and collective risk intelligence, and driving our progression to a 'leading' level of risk

management maturity.

## Workplace safety and wellbeing

Our 2020 Workplace Health and Safety Roadmap targeted our approach around Culture, Leadership and Capability, Fundamentals of Workplace Health and Safety Standards, and Risk Management to deliver an improved safety and wellbeing culture. This was demonstrated through our company-wide focus on ensuring the physical and psychological wellbeing of our people and the mitigation of workplace health and safety risks.

Across the 2020 financial year, our Safe and Well team provided specialist advice on safe work systems, regulatory obligations and reporting, and effective workplace health and safety risk profiles and controls. Employee highlights from the year included RUOK? Day national events, including our employee story podcasts campaign and the showcase of our 'how to have a mental health conversation' videos; 'Become a Safety Champion' themed Safety Month supported by activities designed to improve ergonomics, mental health and hazard identification and reporting, and the launch of our Safe and Well intranet hub.

We are committed to understanding the risks around mental ill-health in the modern workplace and how these can influence, contribute to, or affect people's psychological health. CARE (our employee assistance program in Australia) continues to be a valued resource, and this year was accessed by 12% of employees (a 4% increase on last year). Importantly, the CARE program supports a more holistic wellbeing focus through wellbeing coaching; financial coaching; legal advice; and nutritional advice.

One of our industry benchmark standard measures is lost time injury frequency rate. Results for both Australia (1.47) and New Zealand (0.20) were within our stated targets of 1.47 and 0.86 respectively and, importantly, within risk tolerance limits.

As a result of the impacts of COVID-19 our peoples' safety and wellbeing remained a key priority. More information on our approach is set out on pages 10 – 11 in our Focus report.

## Fostering a diverse and inclusive workplace

We are committed to creating an inclusive culture where people from all backgrounds can be themselves at work and feel a sense of belonging. Our focus is on improving equity, accessibility and flexibility in our organisation. We believe that improvement in these areas supports our workforce sustainability and builds competitive advantage by aligning us more closely with our customer base.

<sup>1</sup> For the 2020 financial year, we moved to a 12-month average for our balanced scorecard measure.



## Equity

Equity recognises that we all have different aspirations and different barriers to achieving these aspirations, and some people need more support than others.

We are proud that our Australian and New Zealand workplaces have been certified as supportive, productive and inclusive workplaces for LGBTQI people. This year we were awarded an Australian Workplace Equality Index (AWEI) Bronze Status for the second year in a row and NZ Rainbow Tick certification for the third year in a row.

A number of Employee Network Groups operate across the company to bring together people who want to create a more inclusive environment for everyone. These groups are: First Nations, Pride Australia, Pride New Zealand, Matou Tagata Pasifika, Accessibility, Families, Haven, Mind Health and Celebrating Women.

### Gender pay parity

We continue to focus on gender pay parity across the Group. We do this through regular 'like for like' role analysis as well as analysis of average pay differences at an organisational level, taking action where unexplainable differences are identified.

<b>Male to female annual salary ratio (Average) (\$)</b>	<b>AU</b>	<b>NZ</b>
General Employees	1.10	1.23
Manager / Senior Specialist	1.07	1.15
Senior Manager	1.02	1.04
Heads Of / General Manager	1.01	

<b>Male to female annual salary ratio (Position in Range) (\$)</b>		
General Employees	1.00	1.00
Manager / Senior Specialist	1.04	1.03
Senior Manager	0.98	1.02
Heads Of / General Manager	1.02	

### Women in senior management

Our target was to have women hold 40% of senior leadership roles across our company by 2020. We define senior management roles as our group executive, executive general managers and the people who report to them. As at 30 June 2020, women held 40.72% of senior management roles across IAG and constituted 58.27% of our workforce. We are delighted with our progress and achievement this year and recognise we still have further to go. As a result, we have set ourselves the stretch target to have women hold 50% of senior leadership roles by 2023.

### Aboriginal and Torres Strait Islander employment

As part of our Elevate Reconciliation Action Plan, we are committed to increasing Aboriginal and Torres Strait Islander employment to 2% of our Australian workforce by December 2021 and to 3% by 2023. As at 30 June 2020, our First Nations representation is 1.05%, which is 90 First Nations employees.

We are taking a number of steps to help us grow our representation of First Nations employees. This year, we established an IAG First Nations employee network group to create a greater sense of

belonging and inclusivity for our First Nations people. We have also committed to delivering an internal mentoring program for Indigenous employees in 2021, to provide ongoing personal and professional support, which will in turn support the development and retention of our First Nations people.

## Accessibility

We have made progress in our Accessibility journey, partnering with the Australian Network on Disability to understand how we can make the world a safer place for our people and customers with access needs.

So far, we have welcomed 17 interns through the Stepping Into program, mentored nine job seekers through Pace Mentoring and hosted an industry Roundtable on accessibility in partnership with the Australian Network on Disability.

We are now focused on addressing accessibility barriers for both our people and our customers in Australia and New Zealand. This includes improving processes to attract and bring on board employees who may live with disability; improve workplace adjustment processes to more effectively accommodate our people with accessibility requirements; and continue the journey of improving digital accessibility for our employees and customers.

## Flexibility

To support our people in and outside work, we provide a range of flexible working options and estimate up to 70% of our workforce works flexibly in normal circumstances.

The COVID-19 pandemic made this year anything but normal however, with 98% of our people working from home since late March 2020. At the date of this report, the majority continue to do so.

We encouraged our people to complete the Leesman Home Working Survey in June to provide us with insights into what they thought about flexible working. Leesman surveys companies from 60 countries across multiple industries. Almost 6,000 people from IAG participated and gave IAG a satisfaction score of 82.5 HLmi (Leesman measure index) – the highest working from home satisfaction score of all the Home Working Surveys Leesman conducted since the beginning of COVID-19 globally. Despite missing the face-to-face interaction with colleagues, 79.6% of people still felt very connected to their teams, managers and IAG as a whole.

## Preparing for the future of work

Our strategic workforce planning framework is designed to help us make choices about the workforce capabilities we need to deliver future organisational strategy and drive decisions about prioritising investment to build the skills and capabilities we need to deliver value to our customers for the long term.

External forces affecting the future of work – such as technology, automation and digitisation of the customer experience – are accelerating demand for emerging capabilities and require us to improve the skills of our workforce. This includes understanding priorities and managing gaps in areas such as digital, automation, customer experience and data science.

Most recently, COVID-19 has urged us to explore what the future of work looks like in a post-pandemic world. A shift to greater flexibility presents an opportunity to leverage broader talent pools and respond to changing expectations about flexibility and remote working.

# Our strategy

## Making customers feel safer on the road, in their homes and at work

IAG's purpose means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves, we exist to 'make your world a safer place'. We believe our purpose will enable us to meet the changing needs of our customers, become a more sustainable business over the long term and deliver stronger and more consistent returns for our shareholders.

Over the last four years, IAG has focused on three key areas:

- Gaining a **deeper and better understanding of its customers**;
- Delivering a **simpler more streamlined operating platform**; and
- Developing an **agile, adaptable workforce**.

With simplification continuing, we have increased our focus on customer engagement and longer-term growth. This includes:

- delivering better insurance experiences to customers with enhanced capabilities in data, digital, analytics and artificial intelligence, brand and innovation;
- extending our strategic partnerships to offer products and services that are adjacent to our insurance business, enabling IAG to make our customers and the community feel safer on the road, in their homes and at work; and
- leveraging our assets – including data, customer reach and brands – to launch new businesses that complement these adjacent products and services.

IAG's objective is to grow the number of customers in our network of brands.

The progress we have made in the delivery of our strategy has positioned us well in an uncertain operating environment shaped by the COVID-19 pandemic. We have strong momentum occurring across the initiatives that underpin our three key strategic priorities:

### I. Customer

**World-leading customer experiences:**



- create a delivery platform that transforms customer experiences;
- better connect customers and automate processes, enabling IAG to reach more customers in a timely manner;
- develop an innovation approach which provides the ability to think differently and deliver quickly;
- embed cognitive capabilities and artificial intelligence that anticipate customers' needs; and
- use data to power decision making, allowing IAG to better understand its customers.

### II. Simplification

**Simplified, modular and lower cost operating model:**



- reduce organisational complexity by consolidating technology platforms, harmonising products, simplifying processes and systems, and executing the technology strategy;
- leverage operational partners to optimise the operating model and drive scale economies across the value chain; and
- improve allocation and maximise utilisation of the preferred repairer network to reduce average claim size.

### III. Agility

**An agile organisation distinguished by innovation, speed and execution skills:**



- create a disciplined approach to IAG's management and leadership, including building stronger role clarity and introducing agile ways of working;
- build a talent pipeline based on the skills required to deliver IAG's strategy and help IAG people transition to the future of work; and
- be recognised as a purpose-led organisation that shapes its internal and external environment.

The COVID-19 pandemic has created a disruptive and uncertain environment. Digital adoption and changing customer needs and expectations mean that IAG is actively assessing the challenges and opportunities presented by this environment.

IAG has the benefit of approaching this from a strong, resilient position that supports its aspiration to be a purpose-led, customer-focused and commercially-disciplined entity.

## Strategic capability investments

### Customer experience

We continued to roll out our Customer Equity Framework this year with the establishment of our Family and Domestic Violence Policy to ensure our people are equipped to deal with customers in Australia who are experiencing family and domestic violence. The policy is a key requirement of the General Insurance Code of Practice. It will be applied to our New Zealand business next financial year.

In light of COVID-19, we added digitally-enabled virtual sessions to our Customer Connections program. These sessions enable a greater understanding of customer needs and expectations, and drive insights and actions. The program has been particularly useful during this period of uncertainty. The virtual sessions include listening to customer calls and interactions conducted by customer facing areas of the business.

During the year, we launched *Imagine Better*, a customer research project to help inform decisions on products and services. The project uses an online community of 3,400 customers to determine how IAG's products and services can be improved. We have already conducted over 30 research studies, with 10,000 surveys completed.

We continued our Listen Learn Act program which offers our people an opportunity to provide continuous improvement ideas. The program is a rich source of ideas, with over 2,500 ideas raised during this financial year, and 153 improvements delivered. This program is being expanded beyond the Australia and New Zealand business divisions in the 2021 financial year.

### Analytics and artificial intelligence

COVID-19 has also increased the need for analytics and artificial intelligence (AI). IAG's single data platform has enabled us to accelerate our analytics and AI work, particularly to improve customer experience, increase efficiency and simplify business processes. Specifically:

- We significantly improved customer experience through the launch of machine learning-enabled motor vehicle total loss alerts;
- We enhanced the digital customer experience by building-out a real time decision engine, which enables greater personalisation and ease of engagement; and
- We used robotics in front line operations to improve service standards and response times to customers.

This work will continue next year as we implement IAG's AI strategy.



### Innovation and venturing

In staying true to our purpose, we continue to launch new businesses which expand our role from 'protection' to 'prevention' by acquiring, building, investing and partnering in priority areas. This year's developments included:

- Completing a full market launch of Safer Journeys, a crash detection and emergency response service; the service will be scaled further in financial year 2021; and
- Launch of IAG's Innovation Cloud Platform, a reusable and consistent technology approach that ensures we can move future new businesses through the innovation pipeline securely, reliably and at pace.

Firemark Ventures has now invested around \$33 million across a range of investments. This year's investments included:

- **Arturo**, an American Family Insurance spin-out that uses artificial intelligence to analyse aerial images to identify property characteristics and produce predictive analytics. Arturo can assist IAG and our customers by pre-filling home insurance quotes, and by helping accurately identify property characteristics, which will help in underwriting and pricing;
- **Tic:Toc**, an online mortgage company that also provides automated micro-services like know-your-customer and highly accurate property data. Tic:Toc can streamline communications with customers by enabling us to quickly identify them and information about their properties, providing an enhanced customer experience and reducing costs;
- **Bluedot Innovations**, a software-as-a-service location data enablement platform that will allow us to experiment with and identify new products and services of value to customers;
- **Quantiful**, a machine learning platform that provides insights into supply chain management so we better understanding and forecast market trends. Quantiful is a natural partner for our Ambiatia investment, providing complementary services and having a similar target customer base; and
- **Digital Agriculture Services**, a business-to-business technology company providing rural data and analytical services that facilitate the management of agricultural investment and commerce so we can better understand the risks associated with rural properties.



# Our material issues

Identifying IAG’s material issues helps us to understand economic, social and environmental impacts to our business and ensure that we are best placed to manage these impacts.

Material issues also affect IAG’s ability to deliver on our purpose to make your world a safer place. We prioritise the most important issues by engaging with key internal and external stakeholders through an annual materiality process.

Customers, employees, partners, shareholders and the communities in which we operate were engaged in this year’s process. We then prioritised these issues based on their impact on the environment, economy and society and their potential to affect our business performance.

Understanding these material issues helps us to concentrate our efforts on the areas where we can achieve the best positive impact while delivering on our purpose. The issues we consider are often complex and we cannot tackle them alone. Stakeholder engagement is key to identifying our material issues and even more important when it comes to understanding the drivers behind the issues and taking action. Examples of how we work collaboratively with communities, governments and industry are detailed throughout this report.

This year we identified four issues which we consider to be most material. This is fewer than previous years and can be attributed to the very high levels of importance we place on our four most material issues. Accessibility and affordability was by far the most material issue identified. Insights from our engagement have shown this is in large part driven by the impacts of the events of 2020, including COVID-19 and bushfires and concerns from all stakeholders about their wider economic impacts in the short, medium and long term.

## Materiality Matrix



## The material issues we identified in 2020

### Access and affordability



Many people do not have adequate insurance cover due to affordability issues, a lack of understanding around the level of protection they require, a lack of suitable insurance products or due to different needs and vulnerabilities acting as barriers to being able to access. We know that inadequate insurance reduces the ability of individuals, communities and our economy to recover from adverse events. As a major insurer, we have a responsibility to ensure insurance remains accessible and affordable. With increased risk, this is not easy. We recognise the need for us to ensure products are in place to meet customers' and community needs. We need to continue to focus on how insurance can be affordable and accessible for all, acknowledging our commitment to financial inclusion. We also need to assist customers and communities to understand the level of protection they require. If we focus on our purpose of making your world a safer place, we will not only improve the resilience of our current customers and communities but also open new market opportunities for IAG.

### Post-disaster relief and emergency response



More than nine million Australians have been affected by a natural disaster or extreme weather event over the last 30 years. Through research, the Australian Business Roundtable for Disaster Resilience & Safer Communities has found that the total costs of natural disasters in Australia are forecast to more than double in real terms to \$39 billion per year by 2050. IAG's success is determined by how well we support our customers to get back on their feet when disaster strikes. We have a responsibility to support the people and businesses we protect when they need us the most and have the skills and experience to offer our customers rapid support to help them recover. We also promote disaster resilience and mitigation to help our customers and their communities be as prepared as possible for the risks they may face.

### Climate change and its impacts



We recognise climate change as one of the biggest threats to our society and way of life today. This risk is heightened through urbanisation and further coastal development. The risk of extreme and destructive weather events will increase if we don't succeed in reducing our global greenhouse gas emissions. This is particularly relevant to our business. We are there when extreme weather events occur and pay out appropriate claims to help our customers and communities recover. As a result, climate risk presents clear challenges for the sustainability of our business – but it also creates significant opportunities. We are well positioned to use our industry expertise to help customers, partners and communities understand and manage the changing risk environment, build resilience and navigate the transition to a low carbon economy.

### Community connection and resilience



Communities are rapidly evolving and face new and increasingly complex challenges. Both individuals and communities need to be equipped with the knowledge and skills to survive, adapt and grow when facing stresses and shocks – whatever these may be. We know communities are more resilient when they are well prepared and connected. Communities which are resilient recover more quickly, and adapt and thrive after shocks and stresses. They also rebuild and own assets more quickly, which provides insurance opportunities. Improving shared understanding of the risks people face is critical to improving safety on our roads, in our homes and in businesses.

## United Nations Sustainable Development Goals

Our material issues inform our strategy, including our enterprise-wide safer communities business plan. In strategy setting and our risk management approach, we also consider the United Nations Sustainable Development Goals (SDGs) to ensure we consider the wider social, environmental and economic context.

IAG supports the SDGs' commitment to advance economic, social and environmental prosperity. In doing so, we recognise that the social and environmental challenges faced by communities, countries and regions also affect business and influence commercial success.

While our work to create safer communities and transfer risk through insurance can support many of the SDGs, we prioritise the ones where we can make the biggest difference.



#### Decent work and economic growth (SDG 8)

We recognise the importance of a safer world, and the value of insurance as a service that helps communities thrive and recover from adversity. The need for wide access to insurance is explicitly called out in Target 8.10.



#### Industry, innovation and infrastructure (SDG 9)

We support investment in resilient infrastructure, innovation and technology progress to find lasting solutions to economic and environmental challenges.



#### Sustainable cities and communities (SDG 11)

We leverage our expertise and partnerships to deliver resilient and sustainable communities and infrastructure.



#### Climate action (SDG 13)

We play an important role in helping communities and customers prepare for the impacts of climate change and in the transfer of risk that extreme weather events will require.

IAG's research, data and expertise on claims assessment and management, combined with our safer communities initiatives, has reinforced the importance of community connection to help prepare for, respond to and recover from major life events. The increase in these events as a result of social and environmental change reinforces the importance of businesses delivering successful programs against the SDGs.

**For more information about our activities to address the material issues and the SDGs, look for the material issues icons and SDG logos throughout this annual review.**



## Responsible and ethical business

**We are committed to setting the standard for meeting the expectations of our customers and the community. Being a responsible and ethical business is not just about understanding and managing our environmental, social and governance risk; it ensures we lay solid foundations to support resilience, identify opportunities, and continue to grow and thrive.**

**This year has been undoubtably challenging, with the Australian bushfires and COVID-19 impacting our operations and the everyday lives of our customers, people and communities. Throughout this time, we have remained focused on delivering our purpose and supporting people and communities to be more resilient and increasingly feel they are ready for anything.**

### Responsible and transparent fundamentals – getting our pricing right

Continued transparency around our pricing is a key part of demonstrating our commitment to be a responsible business, ensuring we build trust with our customers, stakeholders and communities. We continue to assess our products to ensure they deliver the best value to customers, and where we fall short ensure we are open and put in place appropriate remediation programs.

Since our last annual review and safer communities report we have concluded the Swann Insurance add on products remediation program, refunding \$22.9 million to customers and paying a Community Benefit Payment to the Financial Counselling Foundation. During 2019 we also identified pricing issues which potentially caused discounts and other customer offers, in certain circumstances, to not always be fully realised by eligible customers. We have reported and engaged with Australian Securities & Investments Commission (ASIC) with respect to these issues and we are arranging refunds, where appropriate, for those affected customers.

Our Product Governance Framework and Product Design Principles continue to provide mechanisms to ensure our products align with our purpose and meet customer and community expectations.

### Addressing access and affordability through financial inclusion

In March 2020, we launched our Financial Inclusion Action Plan (FIAP), designed to make insurance in Australia more accessible. Access and affordability remains our key material issue and we expect this to continue during challenging economic times.

The FIAP focuses on how IAG can better identify and support people who may experience financial exclusion due to culture, language, gender, disability or other life circumstances. It is also focused on ensuring IAG's customers are treated equitably and fairly through our Customer Equity Framework.

Through the FIAP, we will work to simplify product disclosure statements, develop accessibility guidelines for technology, continue to support Aboriginal and Torres Strait Islander businesses and ensure IAG is providing fair, affordable and accessible products and services to our customers as well as financial inclusion programs for IAG's people, suppliers and the community.

Our FIAP can be accessed at [www.iag.com.au](http://www.iag.com.au).





**The shared social and economic value of addressing mental health**

With 45% of Australian workers experiencing mental illness which costs Australian business \$13 billion each year in lost wages, decreased productivity and support services, mental health has a significant impact on personal wellbeing, social connection and business productivity, profitability and resilience. As discussed on pages 14 – 15 of this report, this work has become even more important in light of COVID-19 and the impacts on wellbeing and mental health.

In 2020, we collaborated with the Shared Value Project and other entities to research how strengthening mental health and wellbeing can improve economic productivity and social resilience outcomes.

The collaboration launched a report – *Creating Shared Value: The Business Imperative to Improve Mental Health* – in conjunction with World Mental Health Day on 10 October 2019. The report demonstrates how companies can gain a competitive advantage by proactively addressing mental health challenges faced by employees, customers and communities. IAG is committed to using the research to deepen our approach on this key issue with our people, our value chain and the communities we work with.



**Procurement with responsibility and purpose**

Collaboration is key to IAG delivering our purpose and one part of this is working with suppliers. Working with our supply chain to ensure high social and environmental standards also helps us build more resilience and ultimately delivers a better experience to our customers.

Throughout 2020 we continued to enhance our approach to and governance of responsible sourcing, which included the introduction of a Group Procurement Policy. As part of the introduction of this Policy we launched our Supplier Code of Conduct and began communicating this to our suppliers, and assessing them against its requirements. The code includes IAG’s minimum expectations

of suppliers in relation to environmental, social and governance issues and in turn lays out our commitments in this area.

This work has been supported by the development of our modern slavery program and we look forward to publishing IAG’s first Modern Slavery Statement in financial year 2021.

In September 2019, in collaboration with information technology services company SAP Ariba, IAG launched an internal Diversity Marketplace, the first of its kind in Australia. It enables our people to make a positive impact on local communities by supporting suppliers of under-represented backgrounds. IAG and SAP Ariba worked closely with member organisations Supply Nation, Mums & Co and Social Traders to identify Aboriginal and Torres Strait Islander, women-owned and social enterprise businesses.



**Governing our approach**

This year our Safer Communities Steering Committee continued to provide input to our approach to safer communities, sustainability and broader community activity. It is chaired by the Group Executive, People, Performance and Reputation, and comprises senior leaders from across the business, including the Chief Strategy and Innovation Officer, ensuring enterprise-wide engagement. IAG’s Climate Risks & Opportunities Steering Committee ensures appropriate Group Executive and senior leadership oversight of our approach to identifying, understanding and managing financial risks and opportunities from climate change, and guidance on climate-related financial disclosures.



## Disaster risk reduction and climate change

**We enable communities in Australia and New Zealand to better prepare for, and respond to, natural perils and climate change by using our unique knowledge, capabilities and assets in partnership with others.**

**The events of this year have brought the importance of disaster risk reduction and climate change into sharp focus. Our activities and commitment continue to be vitally important as it is an area where living our purpose, the ability to remain resilient as a business and delivering affordable and accessible products, intersect.**

### Climate change

Climate change is one of the world's most pressing issues and we recognise that to deliver our purpose we need to focus on mitigating the risks the communities, businesses and individuals we insure are exposed to. According to the Australian Bureau of Meteorology, 2019 was the hottest and driest year on record for Australia, which included one of the worst bushfire seasons, followed by severe hail and flood events. The risks, impacts and opportunities that climate change presents are seen across the whole life cycle of our business. From our investments, to products and pricing, to supporting communities to build back better after natural perils, we are taking action.

Consumer research carried out throughout 2020 demonstrated climate change is increasingly important to our customers. An NRMA Insurance survey conducted in early 2020 showed 69% of New South Wales residents are now worried that their home could be impacted by climate change – almost doubling from 37% in September 2019. This increase was also seen in research with customers in New Zealand with the second annual survey of how New Zealanders view climate change released in July. This survey showed those who thought climate change was important has increased from 72% to

79% with 61% of those surveyed in New Zealand expecting climate change will force us to make tough trade-offs.

### Climate-related impacts

Our climate-related disclosure is aligned with the recommendations of the Taskforce for Climate Related Disclosures (TCFD) and addresses how we are managing climate risks and opportunities through Governance; Strategy; Risk Management; and Metrics and Targets. It can be read in full at [www.iag.com.au](http://www.iag.com.au).

We recognise climate change is a key consideration to ensure the sustainable growth of our business. In setting our strategy, we identified climate change as a key trend that directly influences the stability and growth of our businesses. Our Climate Action Plan sets out the framework, commitment and steps for IAG to mitigate and address the impacts of climate change.

As a business, we have developed a strong understanding of climate change trends via research on natural perils and climate modelling as well as through collaboration with other organisations and initiatives to reduce climate-related risks and strengthen climate resilience. This informs our understanding on how increasing risk of extreme weather events may impact our business in the short, medium and long term.

Our Climate Risks & Opportunities Program continues to work to embed consideration of climate-related impacts into our business strategy, planning and risk management. This includes assessments of physical and transition climate risks and opportunities to key areas of our business value chain, and activities to manage these risks.

Our current understanding is that physical impacts present the most material short, medium and long-term risk to our business, whereas transition impacts are less material but provide both medium-term risks and opportunities to our product, customer and investment portfolios. Preliminary analysis shows the below five areas of our business value chain will experience the most significant impacts from climate change:

- Reinsurance and capital
- Product and service pricing
- Customer segments and affordability
- Claims and insurance supply chain
- Investments





A detailed assessment and the projected impacts of our physical and transition risks and opportunities can be found in the 2020 Climate-related disclosure at [www.iag.com.au](http://www.iag.com.au).

We have been carbon neutral since 2012 and set science-based absolute emission targets for scope 1 and 2 emissions to meet the Paris Agreement commitments to keep climate change below 2°C. Using financial year 2018 as a baseline the targets for scopes 1 and 2 are a 20% reduction by 2020, 43% by 2025, 71% by 2030 and 95% by 2050.

We measure (and have been reducing) our exposure to high carbon risk companies in our investments and underwriting, including the carbon exposure of our equity investments. For more information please refer to the 2020 Climate-related disclosure at [www.iag.com.au](http://www.iag.com.au).

This year we met our financial year 2020 emissions reduction target and have seen a 20% decrease in our year on year scope 1 and 2 emissions. While this large decrease can be partially attributed to COVID-19 restrictions with our workforce moving quickly to work from home, IAG's activities in consolidation of its property portfolio, transitioning key offices to activity-based working, implementation of energy efficiency activities and the increasing fuel efficiency of fleet vehicles also continued to drive down emissions and increase energy efficiency. Understandably, energy usage at our Melbourne data centre was one part of our property portfolio that was not impacted by the move to working from home, however we will be installing a rooftop solar photovoltaic system in financial year 2021 to generate renewable energy onsite.

On Earth Day 2020 we shared top tips to help our people manage their environmental impact when working from home, including simple reminders such as ensuring computers are fully turned off at the end of the day.

### Collaboration and leadership

Disaster risk reduction and climate change cannot be tackled in isolation; we believe collaboration is key to making progress and throughout 2020 IAG continued to show leadership and advocate for change.

In November 2019, we released *Severe Weather in a Changing Climate*, a report co-authored with the US National Center for Atmospheric Research (NCAR). It included the latest data on the state of the

climate and predictions on future extreme weather events based on a range of warming global temperatures. We are using this research to continue work to deliver better pricing, engage the insurance and academic community in improving the quality of insights and inform the community of the severe weather challenges that are being exacerbated by climate change.

We have continued our long-term collaboration with other businesses and the Australian Red Cross in the Australian Business Roundtable for Disaster Resilience & Safer Communities (ABR). Together, ABR members lead and influence public policy and deliver programs that improve disaster resilience and climate change preparedness. Work over the past 12 months includes identifying options to leverage its collective knowledge and programs with strengths in financial and insurance services, telecommunications, critical infrastructure and humanitarian support to influence resilience-based decision making. Next year the ABR plans to update previous economic modelling of the costs of disasters triggered by natural hazards in Australia to reflect the impact of climate change.

We were a founding member of the New Zealand Climate Leaders Coalition in 2018, where Craig Olsen, Chief Executive New Zealand, joined 12 other chief executives who were taking action on climate change and wanted to inspire others to do the same. The membership has now grown to 112 organisations, representing over 60% of New Zealand's gross emissions. This year, we signed up to a new higher ambition pledge, as part of the Coalition, reflecting the latest science that illustrates the need to limit global warming to 1.5 degrees. The new pledge also aligns to the New Zealand Government's ambitions outlined in the Zero Carbon Act. Signing this pledge declares our ambitions around reducing emissions and our commitment to working with our people, suppliers, customers and the wider community along the way.





Lee Hinton, Manager, Indigenous Engagement IAG; Tony Bleasdale OAM, Blacktown City Mayor; Chris Quilkey, Blacktown City Councillor; and Moninder Singh, Blacktown City Councillor

## Community connection and resilience

We are committed to building safer and more connected communities that have the capacity to grow and thrive by partnering, accelerating the role of business in resilience and taking a community-led approach. Connected and more resilient communities are better prepared and bounce back faster from disasters. This in turn can lower our claims frequency and costs.

### Supporting safer homes in our communities

The bushfires across Australia, and COVID-19 across both Australia and New Zealand have highlighted the challenges of family and domestic violence and mental health and the impact they can have on communities.

In Australia, we announced a community investment of \$4 million to address family and domestic violence and mental health, particularly for communities already devastated by bushfires and natural perils across the summer of 2019 / 2020.

Through this investment NRMA Insurance will support the Full Stop Foundation to address sexual, family and domestic violence in Australian communities. The support will provide increased phone counselling services and will help up to 50 local organisations to provide assistance to clients as they move to safety and recovery.

In partnership with RACV in Victoria, NRMA Insurance will support Lifeline to support mental health and enable critical tele-health suicide prevention services for vulnerable communities including those affected by the summer bushfires and COVID-19.



### Building resilience in our First Nations communities

In 2020 we continued to deliver on our Indigenous Engagement Strategy and Elevate Reconciliation Action Plan to enable First Nations businesses through mentoring and to reduce the incarceration and re-offending rates for Indigenous Australians.

Through IAG's relationship with Just Reinvest NSW, in financial year 2020 we supported a number of community consultations to inform a place-based approach for Just Reinvest in Mount Druitt which focuses on unpacking the data around incarceration and crime in the area.

Through this partnership we are also supporting a Learner Driver Mentor Program for the area which aims to reduce the incarceration rates for driving-related offences among Aboriginal and Torres Strait Islander Australians in Mount Druitt. The program, which is being delivered through our partnership with the Australian Red Cross, aims to increase the inclusion of Indigenous Australians in the licensing system and increase positive road safety outcomes resulting in increased economic inclusion for Indigenous Australians that flows from having a licence. We have agreed an aspirational target of 500 Indigenous Australians completing the Learner Driver program in Mount Druitt and holding provisional licences by 2023.

### Indigenous Business Month

In line with our commitments to support Indigenous change-makers, influencers and entrepreneurs, IAG partnered with Melbourne University Business School and the First Nations Murra Business Program to support Indigenous Business Month. This support included providing grants through the Wa-murayangkulang ("walk forward") Awards to Indigenous small-to-medium-sized enterprise owners to help improve their capacity and capability to run a successful business. We presented five awards with a grant of \$5,000 to winners from a range of industries from safety and PPE equipment, catering and events through to athleisure equipment and cultural competency.





**Supporting connected and resilient communities**

Connected and resilient communities bounce back faster when impacted by disaster. IAG alongside its partners, helps to support communities when they need it the most.

NRMA Insurance’s research has found that, in an emergency situation, one in three Australians believe that clothes are the most valuable item to donate, ahead of money and food vouchers. Our partnership with GIVIT, an online giving platform which helps connect those who have items to donate with those in need, supports affected communities when natural peril events occur. Over the summer bushfires in 2019 and 2020, GIVIT helped impacted communities to get back on their feet by calling for donations for specific items needed to help them recover. In 2020, IAG also supported GIVIT’s growth beyond Queensland into New South Wales and Victoria, helping even more communities get back on their feet with much needed supplies.

In 2020, our partnership with the NSW State Emergency Service (SES) helped to support communities to be safer and more resilient to weather events. The NRMA Insurance Get Ready grant applications support local volunteers and SES units to enable their communities to better mitigate their risk. In 2020 these grants supported 15 projects focused on supporting local New South Wales communities with practical preparedness solutions which will lead to better prepared properties for storms; raised awareness of the dangers of flood waters; and built SES connections with the deaf and hard of hearing communities.

Through our 10-year partnership with Australian Red Cross, we have been working together to improve individual and community resilience through enabling community led and owned solutions. The Get Prepared smartphone app, developed in partnership between IAG and Australian Red Cross, helps users establish a network of contacts, consider the risks relevant to where they live and create a list of actions to undertake. The Get Prepared app has been downloaded over 30,000 times since its launch in October 2017.

**Creating Good ‘Hoods in Blacktown NSW**

Our Good ‘Hoods program partners directly with local communities to find, support and grow community-led initiatives which help build resilience to specific local challenges.

One of the ways we have been working with Blacktown City Council is by partnering on tree planting programs aimed to mitigate the impacts of urban heat caused by climate change. Building on the success of the Cool Streets program we supported in financial year 2019, this year we partnered in its Tree-rific Playground project. This involved planting 100 trees to provide shade to 10 playgrounds. The trees were mostly native species including Eucalyptus and Melaleucas. Urban heat impacts from climate change are a significant issue in the Blacktown area and trees provide shade and cooling as well as a habitat for native birds and wildlife.



**Safer communities and investment data**

For additional information on our progress against IAG’s commitments, community investment data and further data summaries and IAG’s Climate-related disclosures visit the Safer Communities section of [www.iag.com.au](http://www.iag.com.au).



# Letter from the Chairman of the People and Remuneration Committee

## Dear Shareholder,

The 2020 financial year has seen unprecedented economic and environmental challenges across Australia and New Zealand: bushfires of exceptional ferocity, floods and major hailstorms, all followed by the global COVID-19 pandemic.

Throughout the year our employees have worked tirelessly to meet these challenges, to serve customers, protect colleagues and preserve shareholder returns.

Despite these efforts however, shareholder returns for the 2020 financial year have declined materially.

Our current financial year cash earnings result of \$279 million is 70% lower than the prior financial year, primarily due to a combination of higher-than-anticipated natural perils (which had a negative impact on the current financial year cash earnings of around \$195 million), and investment income losses as a result of COVID-19-related financial market volatility (contributing more than \$315 million to our cash earnings shortfall). In addition, the remediation of longstanding risk matters has also had a financial impact. The 2020 financial year cash earnings result has meant that, in accordance with our 60-80% of cash earnings dividend policy, there will be no final 2020 financial year dividend for our shareholders.

## Remuneration outcomes reflect our business results and risk performance

In response to these results, and considering the current economic circumstances and uncertainty, the Board has decided the following remuneration outcomes for Executives and employees:

### Fixed pay

- No increases to the 2021 financial year fixed pay for senior management including Executives.
- No increase to the 2021 financial year fees for Directors.
- A flat 1% increase for eligible employees below the level of Executive Manager.

### Short-term incentives (STI)

- No STI payments will be made for the 2020 financial year.

### Long-term incentives (LTI)

- The 2017/2018 LTI awards with the ROE performance measure reached the end of their three-year performance period on 30 June 2020. Having regard to the Group performance over the period, the Board has determined the award will vest at 82%. This outcome will be included in detail in next year's Remuneration Report. The 2016/2017 LTI awards which vested at 100% on 12 August 2020 are disclosed in detail in this Report.
- During the 2020 financial year, the four-year performance period for the relative total shareholder return (TSR) portion of the 2015/2016 LTI award concluded on 30 September 2019. IAG's TSR was ranked at the 75th percentile of its peer group resulting in full vesting of this award on 15 October 2019. The TSR component of the 2016/2017 LTI will reach the end of its performance period on 30 September 2020, and has not yet been finally considered by the Board. The vesting results for this tranche will be disclosed in next year's Remuneration Report.

In addition, the Board made a number of downward risk-related adjustments to deferred awards of senior leaders in relation to risk failures identified and assessed during the year. Adjustments were made in respect of current and former Executives, to a total of approximately \$2.7 million. Some adjustments below the Executive level were also made.

In taking these decisions, the Board has been mindful that returns to shareholders for the 2020 financial year have been well below what has been achieved in recent years. At the same time, the Board wants to acknowledge the considerable endeavours of employees across the Group, and to thank them as they have sought to provide high quality, uninterrupted service to our customers through difficult times and events.

## Being guided by our purpose in the 2021 financial year and beyond

COVID-19 continues to have a severe impact on many of our customers and on the community more widely. Many people are facing difficult circumstances. We will continue to be guided by our purpose as we support our customers and employees in these challenging times.

Our purpose will also continue to guide the decisions we make, including those that relate to Executive pay. In determining Executive pay outcomes, we will still assess both financial and non-financial business performance. Our comprehensive risk assessment process will help ensure we deliver results in a sustainable way for all IAG stakeholders. We will continue to monitor the alignment of remuneration outcomes with business performance, the economic environment and the experiences of our stakeholders and we will exercise discretion where required.

While the timelines for some proposed regulatory changes have been extended due to the impact of COVID-19, IAG continues to proactively mature its remuneration governance practices. In doing this, we are seeking to ensure our practices continue to operate effectively and will readily adapt to the future regulatory context of both the Financial Accountability Regime (FAR) and APRA Prudential Standard CPS 511 Remuneration (CPS 511).

As always, we look forward to receiving feedback on any aspect of this report and our remuneration arrangements, and we appreciate your ongoing support.



**Jon Nicholson**

Chairman, People and Remuneration Committee

## Actual remuneration received by Executives

The following table details remuneration received by Executives during the financial year, which includes:

- fixed pay and other benefits paid during the financial year;
- the value of cash STI awards earned in the financial year; and
- the value of prior years' deferred STI and LTI awards that vested during the financial year.

For remuneration details provided in accordance with the Accounting Standards, refer to the table that appears on page 41 of the 2020 annual report.

Executives	Financial year	Fixed pay <sup>1</sup>	Other benefits and leave accruals <sup>2</sup>	Termination benefits <sup>3</sup>	Cash STI <sup>4</sup>	Deferred STI vested <sup>5</sup>	LTI vested <sup>6</sup>	Total actual remuneration received
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
Peter Harmer	2020	1,900	26	–	–	638	3,179	5,743
	2019	1,858	136	–	709	655	2,049	5,407
Julie Batch	2020	767	1	–	–	201	924	1,893
	2019	728	3	–	269	200	462	1,662
Nick Hawkins	2020	1,200	6	–	–	374	1,907	3,487
	2019	1,200	33	–	480	399	1,480	3,592
Michelle McPherson <sup>7</sup>	2020	184	13	–	–	–	–	197
	2019	–	–	–	–	–	–	–
Mark Milliner	2020	1,100	36	–	–	297	1,730	3,163
	2019	1,079	117	–	432	1,306	–	2,934
Craig Olsen <sup>8</sup>	2020	802	38	–	–	232	957	2,029
	2019	785	62	–	339	202	448	1,836
Christine Stasi <sup>9</sup>	2020	492	281	–	–	–	–	773
	2019	–	–	–	–	–	–	–
David Watts	2020	875	16	–	–	423	–	1,314
	2019	704	32	–	176	–	–	912

- Fixed pay includes amounts paid in cash, superannuation contributions plus the portion of IAG's superannuation contribution that is paid as cash instead of being paid into superannuation. Fixed pay also includes salary sacrifice items such as cars and parking as determined in accordance with AASB 119 *Employee Benefits*. Julie Batch received a fixed pay increase following her appointment as Chief Strategy and Innovation Officer.
- Further details are provided in Table 13 in Appendix 1 on page 41 of the 2020 annual report.
- Payment in lieu of notice, which incorporates statutory notice and severance entitlements.
- Cash STI earned within the year ended 30 June and to be paid in the following September (representing 50% of the award made for the financial year).
- Deferred STI vesting on 12 August 2019 and 1 September 2019 was valued using the five day VWAP of \$7.82 and \$7.97 respectively (1 September 2018: \$7.65).
- LTI vested was valued using the five day VWAP at vesting date which was \$7.82 for awards vested on 12 August 2019 and \$7.72 for awards vested on 15 October 2019 (16 August 2018: \$7.98 and 30 September 2018: \$7.32).
- Remuneration for Michelle McPherson is presented for the period for which she served as KMP.
- Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2020 which was 1 NZD = 0.94825 AUD.
- Christine Stasi commenced as Group Executive, People, Performance and Reputation on 4 November 2019. Her remuneration is presented for the period for which she served as a KMP. Ms Stasi received a cash payment in February 2020 as compensation for incentives foregone on leaving her previous employer.

## Statutory remuneration details for Non-executive Directors

Non-executive Directors	Financial year	Short-term employment benefits		Post-employment benefits		Other long-term employment benefits	Termination benefits	Share-based payment	Total
		IAG Board fees received as cash	Other Board and committee fees	Super-annuation	Retirement benefits				
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Elizabeth Bryan	2020	440	169	21	–	–	–	125	755
	2019	485	169	21	–	–	–	113	788
Simon Allen <sup>1</sup>	2020	112	117	13	–	–	–	–	242
	2019	–	–	–	–	–	–	–	–
Duncan Boyle	2020	176	91	25	–	–	–	–	292
	2019	176	91	25	–	–	–	–	292
Sheila McGregor	2020	88	39	20	–	–	–	83	230
	2019	44	23	19	–	–	–	124	210
Jon Nicholson	2020	176	68	23	–	–	–	–	267
	2019	176	68	23	–	–	–	–	267
Helen Nugent	2020	176	46	21	–	–	–	–	243
	2019	176	46	21	–	–	–	–	243
Tom Pockett	2020	178	68	21	–	–	–	–	267
	2019	178	68	21	–	–	–	–	267
George Savvides <sup>2</sup>	2020	176	46	22	–	–	–	–	244
	2019	10	1	1	–	–	–	–	12
Michelle Tredenick	2020	88	39	20	–	–	–	83	230
	2019	135	23	19	–	–	–	53	230
<b>Non-executive Director who ceased as key management personnel</b>									
Hugh Fletcher <sup>3</sup>	2020	59	61	7	–	–	–	–	127
	2019	176	186	21	–	–	–	–	383

- Non-executive Director appointed part way through the year ended 30 June 2020.
- Non-executive Director appointed part way through the year ended 30 June 2019.
- Non-executive Director ceased as KMP part way through the year ended 30 June 2020.

The information shown on pages 26 – 27 is an extract from the 2020 remuneration report, which appears on pages 24 – 46 of the 2020 annual report.

# Board of Directors

**The Board's principal role is to govern IAG, by ensuring that there is a proper governance framework in place to promote and protect IAG's interests for the benefit of its stakeholders. To achieve this, the Board oversees and appraises the company's strategy, policies and performance, through the lens of our purpose.**

The Board also oversees our compliance with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations. Details of our approach to corporate governance, and our compliance with the principles, are set out in our 2020 Corporate Governance Statement which is available online in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).



**Peter Harmer**  
**Managing Director and Chief Executive Officer, Executive Director**  
 Appointed November 2015  
 Member, Nomination Committee



**Jonathan (Jon) Nicholson** BA  
**Independent Non-executive Director**  
 Appointed September 2015  
 Chairman, People and Remuneration Committee  
 Member, Nomination Committee, Risk Committee



**Tom Pockett** CA, BCom  
**Independent Non-executive Director**  
 Appointed January 2015  
 Chairman, Audit Committee  
 Member, Nomination Committee, Risk Committee



**Simon Allen** BCom, BSc, CFInstD  
**Independent Non-executive Director**  
 Appointed November 2019  
 Member, Nomination Committee, People and Remuneration Committee, Risk Committee



**Dr Helen Nugent** AO  
 BA (Hons), PhD, MBA, DUniv (Bond), HonDBus (Qld)  
**Independent Non-executive Director**  
 Appointed December 2016  
 Member, Audit Committee, Nomination Committee, Risk Committee



**George Savvides** AM  
 BEng (Hons) (UNSW), MBA (UTS), FAICD  
**Independent Non-executive Director**  
 Appointed June 2019  
 Member, Nomination Committee, People and Remuneration Committee, Risk Committee



**Elizabeth Bryan** AM BA (Econ), MA (Econ)  
**Chairman and Independent Non-executive Director**  
 Appointed December 2014  
 Appointed Chairman, March 2016  
 Chairman, Nomination Committee  
 Chairman, Insurance Manufacturers of Australia Pty Limited



**Duncan Boyle** BA (Hons), FCII, FAICD  
**Independent Non-executive Director**  
 Appointed December 2016  
 Chairman, Risk Committee  
 Member, Audit Committee, Nomination Committee, People and Remuneration Committee



**Sheila McGregor** BA (Hons), LLB, AICD Diploma  
**Independent Non-executive Director**  
 Appointed March 2018  
 Member, Audit Committee, Nomination Committee, Risk Committee



**Michelle Tredenick** BSc, FAICD, FFin  
**Independent Non-executive Director**  
 Appointed March 2018  
 Member, Nomination Committee, People and Remuneration Committee, Risk Committee

# Group Leadership Team

IAG's Group Leadership Team supports our core businesses and our focus on our strategic priorities of customer, simplification and agility.

The Group Leadership Team is headed by our Managing Director and Chief Executive Officer, Peter Harmer. Detailed information about our executives is available on our website ([www.iag.com.au](http://www.iag.com.au)).



**Peter Harmer**  
Managing Director and Chief Executive Officer,  
Executive Director



**Julie Batch** MApp Fin, ANZIF (Fellow)  
Chief Strategy & Innovation Officer



**Nick Hawkins** BCom, FCA  
Deputy CEO



**Peter Horton** BA, LLB  
Group General Counsel & Company Secretary



**Michelle McPherson** BBus, CA, GAICD  
Acting CFO



**Mark Milliner** BCom, MBA, GAICD  
CEO Australia



**Neil Morgan** BSc (Hons) Management Sciences  
Group Executive Technology & Digital



**Craig Olsen** BAAcc  
Chief Executive New Zealand



**Christine Stasi**  
Group Executive, People  
Performance & Reputation



**David Watts** BBus, MBA, CPA  
Chief Risk Officer

# Five-year financial summary

	2020 \$m	2019 \$m	2018 \$m	2017 <sup>13</sup> \$m	2016 \$m
Gross written premium	12,135	12,005	11,647	11,439	11,367
Gross earned premium	12,164	11,942	11,522	11,321	11,411
Outwards reinsurance premium expense	(4,801)	(4,704)	(3,851)	(3,122)	(3,183)
Net premium revenue	7,363	7,238	7,671	8,199	8,228
Net claims expense	(5,010)	(4,619)	(4,617)	(5,082)	(5,397)
Net underwriting expense	(1,757)	(1,716)	(1,877)	(2,079)	(2,116)
Underwriting profit <sup>1</sup>	596	903	1,177	1,038	715
Net investment income on assets backing insurance liabilities	145	321	230	232	463
Management reported insurance profit <sup>1</sup>	741	1,224	1,407	1,270	1,178
Net investment (loss)/income from shareholders' funds	(181)	227	165	246	97
Other income	441	111	164	180	204
Share of net profit of associates <sup>2</sup>	57	42	31	19	17
Finance costs	(92)	(94)	(82)	(93)	(99)
Corporate and administration expenses <sup>3</sup>	(404)	(124)	(185)	(222)	(423)
Acquired intangible amortisation and impairment	(27)	(54)	(90)	(57)	(54)
Profit before income tax	535	1,332	1,410	1,343	920
Income tax expense	(37)	(363)	(384)	(328)	(218)
Profit after tax from continuing operations	498	969	1,026	1,015	702
(Loss)/profit after tax from discontinued operations	(4)	204	(25)	(10)	-
Net profit attributable to non-controlling interests	(59)	(97)	(78)	(76)	(77)
Net profit attributable to shareholders of the Parent	435	1,076	923	929	625
Cash earnings <sup>4</sup>	279	931	1,034	990	867
Ordinary shareholders' equity (\$ million)	6,077	6,404	6,669	6,562	6,563
Total assets (\$ million)	29,694	29,286	29,766	29,597	30,030

## Key ratios

Gross written premium growth	1.1%	3.1%	1.8%	n/a	-0.6%
Loss ratio <sup>5</sup>	68.0%	63.8%	60.2%	62.0%	65.6%
Expense ratio <sup>6</sup>	23.8%	23.7%	24.5%	25.3%	25.7%
Combined ratio <sup>7</sup>	91.8%	87.5%	84.7%	87.3%	91.3%
Reported insurance margin <sup>8</sup>	10.1%	16.9%	18.3%	15.5%	14.3%
Underlying insurance margin <sup>9</sup>	16.0%	16.6%	14.1%	12.4%	14.0%

## Share information

Dividends per ordinary share (cents) <sup>10</sup>	10.00	37.50	34.00	33.00	36.00
Basic earnings per ordinary share (cents) <sup>11</sup>	18.87	46.26	39.06	39.03	25.79
Basic earnings per ordinary share – cash basis (cents) <sup>12</sup>	12.12	40.04	43.78	41.60	35.78
Diluted earnings per ordinary share (cents) <sup>11</sup>	18.49	44.58	38.3	37.72	25.34
Diluted earnings per ordinary share – cash basis (cents) <sup>12</sup>	12.12	38.83	42.75	40.13	34.76
Ordinary share price at 30 June (\$) (ASX: IAG)	5.77	8.26	8.53	6.78	5.45
Capital notes price at 30 June (\$) (ASX: IAGPD)	103.54	106.95	104.67	106.53	-
Issued ordinary shares (million)	2,311	2,311	2,367	2,367	2,431
Issued capital notes (million)	4	4	4	4	-
Market capitalisation (ordinary shares) at 30 June (\$ million)	13,334	19,089	20,191	16,048	13,249
Net tangible asset backing per ordinary share (\$)	1.27	1.43	1.47	1.36	1.30

1 The amounts for the 2020 and 2016 financial years are presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure. A reconciliation between the two is outlined in the Reconciliation Between The Statutory Results (IFRS) And The Management Reported (Non-IFRS) Results section of the Directors' Report in this report and the Operating and Financial Review section of the Directors' Report in the 30 June 2016 Annual Report.

2 Share of net profit of associates includes regional support and development costs.

3 Includes a \$246 million pre-tax net impact of the customer refund provision for 2020 and a \$198 million impairment of capitalised software for 2016.

4 Cash earnings represent non-IFRS financial information. It is defined as net profit after tax attributable to shareholders of the Parent, plus amortisation and impairment of acquired identifiable intangibles, and excluding any unusual items (non-recurring in nature).

5 The loss ratio refers to the net claims expense as a percentage of net premium revenue.

6 The expense ratio refers to net underwriting expense as a percentage of net premium revenue.

7 The combined ratio refers to the sum of the loss ratio and expense ratio.

8 Reported insurance margin is a ratio of insurance profit over net premium revenue.

9 Underlying insurance margin is defined as the reported insurance margin adjusted for net natural peril claim costs less related allowance for the period, reserve releases in excess of 1% of NEP and credit spread movements.

10 The dividends per ordinary share are partially franked for the 2019 to 2020 financial years, and fully franked for the 2016 to 2018 financial years.

11 Reflects basic and diluted earnings per ordinary share on an accounting basis.

12 Basic and diluted earnings per ordinary share on a cash basis are calculated with reference to cash earnings.

13 The financial information for 2017 has been re-presented to reflect the changed treatment of the Asian businesses as discontinued operations. Financial information for 2016 is not re-presented.



# EY assurance statement

## Scope and assurance of sustainability reporting

Pages 18 to 25 of this annual review provide an outline of our safer communities performance during the year ended 30 June 2020. EY was engaged by IAG to undertake limited assurance over selected disclosures in the safer communities section of IAG's annual review and safer communities report, and associated online content. The subject matter for EY's limited assurance engagement for the year ended 30 June 2020 for Australia and New Zealand was limited to:

- A selection of 63 non-financial quantitative performance indicators ('Selected Performance Information') contained in the 'Safer Communities' online content, (<https://www.iag.com.au/safer-communities/esg-commitments-and-performance>)
- The consolidated performance metrics relating to the Selected Performance Information, presented throughout IAG's FY20 Annual Review and Safer Communities Report
- Selected qualitative disclosures relating to the Selected Performance Information, and selected qualitative disclosures pertaining to IAG's material issues contained within IAG's FY20 Annual Review and Safer Communities Report as well as within its associated online content (limited to IAG's Climate-related Disclosures (<https://www.iag.com.au/safer-communities/esg-commitments-and-performance>)).

## EY's conclusion statement

Ernst & Young was engaged by IAG to undertake 'limited assurance' as defined by Australian Auditing Standards, here after referred to as a 'review', over selected sustainability disclosures in IAG's Annual Review and Safer Communities Report and associated online content ('The Report'), for the year ended 30 June 2020. Based on our review, nothing came to our attention that caused us to believe that the selected disclosures have not been prepared and presented fairly, in all material respects, in accordance with the criteria defined below.

EY's independent Limited Assurance Statement to the Board and Management of Insurance Australia Group Limited is available in the Safer communities section of IAG's website.

# Key dates

2020 financial year end	30 June 2020
Full year results and dividend announcement	7 August 2020
Notice of meeting available	10 September 2020
Annual general meeting	23 October 2020
Half year end	31 December 2020
Half year results and dividend announcement	10 February 2021*
Interim dividend record date	17 February 2021*
Interim dividend payment date	30 March 2021*
2021 financial year end	30 June 2021
Full year results and dividend announcement	11 August 2021*

\* Please note: dates are subject to change. Any changes will be published via a notice to the Australian Securities Exchange (ASX).

## Shareholder information

### Share registry

Computershare Investor Services Pty Limited  
GPO Box 4709, Melbourne VIC 3001 Australia

### Hand deliveries

Level 3, 60 Carrington Street  
Sydney NSW 2000 Australia

### Telephone

(within Australia) 1300 360 688 or  
(outside Australia) +61 (0)3 9415 4210

### Other

Email [iag@computershare.com.au](mailto:iag@computershare.com.au)  
Facsimile (general) +61 (0)3 9473 2470

### Registered office

Insurance Australia Group Limited  
Level 13, 201 Sussex Street  
Sydney NSW 2000 Australia

Telephone +61 (0)2 9292 9222  
Email [investor.relations@iag.com.au](mailto:investor.relations@iag.com.au)  
Facsimile +61 (0)2 9292 8072  
Website [www.iag.com.au](http://www.iag.com.au)

## Shareholders

# 642,980

holders at  
30 June 2020



# 10.0 cents

per share full year dividend  
82.8% payout ratio



# 20 years

since ASX listing  
(8 August 2000, as NRMA Insurance Group Limited)

# 2020 annual report suite

Our **annual review and safer communities report** contains a summary of the 2020 financial year performance of Insurance Australia Group Limited (IAG). Unless otherwise indicated, references to 2020, 2019 and 2018 in graphs and copy throughout this review refer to IAG's financial years ending 30 June 2020, 2019 and 2018 respectively. All figures are in Australian dollars unless otherwise stated.

More detailed information about IAG's 2020 financial performance is available in the Results & Reports area of our website ([www.iag.com.au](http://www.iag.com.au)). The website also houses financial updates, investor reports, ASX announcements, key dates and a comprehensive shareholder centre.

Our 2020 **annual report** contains more detailed financial information, including full statutory accounts, and the Directors' and remuneration reports for the 2020 financial year. This year's corporate governance report is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)). To have a copy of the annual review or annual report mailed to you, contact IAG's Share Registry using the contact details on the next page.

## 2020 annual general meeting

The 2020 annual general meeting (AGM) of Insurance Australia Group Limited will commence at 10.00am on Friday, 23 October 2020. In light of the COVID-19 pandemic, our AGM this year will be held virtually for all shareholders through the online AGM platform at <https://web.lumiagm.com>. The Board of Directors will attend in person to the extent they are able to do so in a safe and permissible manner. The AGM will be webcast live on the internet at [www.iag.com.au/shareholder-centre/annual-meetings](http://www.iag.com.au/shareholder-centre/annual-meetings) and an archived version will be placed on the website after the event to enable the AGM to be viewed at a later time. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be available online at [www.iag.com.au](http://www.iag.com.au) from Thursday, 10 September 2020.

## Online information

To view other information about IAG and to manage your shareholding online, visit [www.iag.com.au](http://www.iag.com.au). You can also register to receive email news alerts when IAG makes important announcements.

# Glossary

**APRA** is the Australian Prudential Regulation Authority.

**Credit spread** is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.

**Gross written premium (GWP)** is the total amount of insurance premiums that we receive from customers.

**Insurance margin** represents our insurance profit as a percentage of our net earned premium.

**Insurance profit** is our underwriting result plus the investment income on assets backing our technical reserves.

**Life and General Insurance Capital (LAGIC)** is APRA's revised regulatory capital regime, which came into effect from 1 January 2013.

**Long tail** classes of insurance are those such as CTP and workers' compensation where the average period is generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.

**Net earned premium (NEP)** is gross earned premium less reinsurance expense.

**Net profit after tax** is our net result, after allowing for income taxes and the share of profit owing to non-controlling interests.

**Prescribed Capital Amount (PCA)** is as defined by APRA under its LAGIC regime.

**Risks in force** refers to the subject matter that an insurance policy or contract protects (eg number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force is a measure of the total number of risks covered by an insurance company at a point in time.

**Shareholders' funds** is the investment portfolio of assets we hold in excess of the amount backing technical reserves; it represents shareholders' equity not used in day-to-day operations.

**Short tail** classes of insurance (such as motor, home and small-to-medium enterprise commercial) are those with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.

**Technical reserves** are the investments we hold to back the outstanding claims liability and unearned premium, net of recoveries and premium debtors.

The **underlying margin** is non-International Financial Reporting Standards financial information that has not been audited or reviewed. It is provided to give management's view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability.



## Australia

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## New Zealand

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1 IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% owned by RACV.

2 IAG owns 100% of Insurance Australia Limited (IAL), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an Authorised Representative Agreement with IAL.



Pacesetter Laser Recycled is 30% recycled and made up from elemental chlorine free bleached pulp which is PEFC™ certified sourced from sustainably managed sources. It is manufactured by an ISO 14001 certified mill.